

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Financial Statements and
Supplementary Information

Year ended June 30, 2010

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2010

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2010

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Board of Directors

Community Development Commission of the City of National City

National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City, California as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Community Development Commission of the City of National City. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund financial of the Community Development Commission of the City of National City at June 30, 2010, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented *management's discussion and analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Community Development Commission of the City of National City
National City, California
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Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The individual budgetary comparison schedules for Debt Service and Capital Projects Funds are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplementary schedules have been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2010 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 23, 2010

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments (note 5)	\$ 16,650,341	84,989	16,735,330
Cash and investments with fiscal agent (note 5)	3,806,938	1,717,538	5,524,476
Receivables:			
Accounts	2,907,247	490	2,907,737
Interest	27,870	-	27,870
Taxes	256,624	-	256,624
Loans (note 7)	14,010,599	-	14,010,599
First time homebuyers loans (note 7)	2,066,093	-	2,066,093
Due from other governments	730,497		730,497
Prepaid expense	-	157,259	157,259
Land held for resale	10,267,509	-	10,267,509
Capital assets (note 6):			
Nondepreciable capital assets	2,050,000	528,382	2,578,382
Depreciable capital assets, net of accumulated depreciation	581,666	7,101,527	7,683,193
Total assets	53,355,384	9,590,185	62,945,569
<u>Liabilities</u>			
Accounts payable and other liabilities	2,895,693	435,884	3,331,577
Accrued salaries and benefits	81,181	-	81,181
Accrued interest payable	141,471	-	141,471
Deposits	25,000	-	25,000
Due to City of National City	22,348	-	22,348
Noncurrent liabilities (note 8):			
Due within one year	2,770,000	204,777	2,974,777
Due in more than one year	41,174,966	2,276,885	43,451,851
Total liabilities	47,110,659	2,917,546	50,028,205
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,631,666	5,148,247	7,779,913
Restricted for low and moderate housing	12,874,593	1,524,392	14,398,985
Unrestricted net assets (deficit)	(9,261,534)	-	(9,261,534)
Total net assets	\$ 6,244,725	6,672,639	12,917,364

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Activities

Year Ended June 30, 2010

		Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Program Revenues
Governmental activities:					
Low and moderate housing	\$ 670,912	-	-	-	-
Community development	16,114,359	-	11,313,591	-	11,313,591
Interest on long-term debt and related charges	<u>2,116,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>18,902,025</u>	<u>-</u>	<u>11,313,591</u>	<u>-</u>	<u>11,313,591</u>
Business-type activities:					
Low and moderate housing	2,673,093	2,063,715	-	-	2,063,715
Interest on long-term debt and related charges	<u>180,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,854,075</u>	<u>2,063,715</u>	<u>-</u>	<u>-</u>	<u>2,063,715</u>
Total primary government	<u>\$ 21,756,100</u>	<u>2,063,715</u>	<u>11,313,591</u>	<u>-</u>	<u>13,377,306</u>

General revenues:

Tax increment, net

Investment income

Other

Transfers to City, net

Total general revenues and transfers

Change in net assets

Net assets at beginning of year, as restated (note 13)

Net assets at end of year

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(670,912)	-	(670,912)
(4,800,768)	-	(4,800,768)
<u>(2,116,754)</u>	<u>-</u>	<u>(2,116,754)</u>
<u>(7,588,434)</u>	<u>-</u>	<u>(7,588,434)</u>
-	(609,378)	(609,378)
<u>-</u>	<u>(180,982)</u>	<u>(180,982)</u>
<u>-</u>	<u>(790,360)</u>	<u>(790,360)</u>
<u>(7,588,434)</u>	<u>(790,360)</u>	<u>(8,378,794)</u>
6,584,440	-	6,584,440
498,866	6,943	505,809
368,722	-	368,722
<u>(472,798)</u>	<u>-</u>	<u>(472,798)</u>
<u>6,979,230</u>	<u>6,943</u>	<u>6,986,173</u>
(609,204)	(783,417)	(1,392,621)
<u>6,853,929</u>	<u>7,456,056</u>	<u>14,309,985</u>
<u>\$ 6,244,725</u>	<u>6,672,639</u>	<u>12,917,364</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Balance Sheet - Governmental Funds

June 30, 2010

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	HUD Program Income	HOME Program
<u>Assets</u>				
Cash and investments (note 5)	\$ -	1,142,448	415,510	2,160,158
Cash with fiscal agent (note 5)	-	-	1,094,028	-
Receivables:				
Accounts	290,563	45,616	-	-
Interest	-	-	2,705	3,635
Taxes	-	-	-	-
Loans	-	-	223,349	1,185,985
First time homebuyers loans	-	-	-	1,611,117
Due from other funds (note 4)	-	106	124,561	-
Due from other governments	582,390	-	-	145,311
Land held for resale	-	-	-	875,000
Total assets	<u>\$ 872,953</u>	<u>1,188,170</u>	<u>1,860,153</u>	<u>5,981,206</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 339,343	71,636	57,021	115,768
Accrued payroll	2,416	21,615	-	1,999
Due to other funds (note 4)	124,561	15,884	-	-
Due to City of National City	22,348	-	-	-
Deposits	-	-	-	-
Deferred revenue	108,737	-	-	1,647,039
Total liabilities	<u>597,405</u>	<u>109,135</u>	<u>57,021</u>	<u>1,764,806</u>
Fund balances:				
Reserved for:				
Continuing appropriations	-	16,896	25,157	-
Contingencies	-	-	-	-
Loans receivable	-	-	223,349	-
First time homebuyer loans receivable	-	-	-	1,150,063
Land held for resale	-	-	-	875,000
Program	-	971,837	-	-
Debt service	-	-	1,094,028	-
Unreserved:				
Undesignated	275,548	90,302	460,598	2,191,337
Total fund balances	<u>275,548</u>	<u>1,079,035</u>	<u>1,803,132</u>	<u>4,216,400</u>
Total liabilities and fund balances	<u>\$ 872,953</u>	<u>1,188,170</u>	<u>1,860,153</u>	<u>5,981,206</u>

See accompanying notes to the basic financial statements.

Low and Moderate Income Housing Program	Debt Service Fund Redevelopment Fund	Capital Projects Fund Redevelopment Fund	Totals Governmental Funds
7,598,805	3,635,561	1,697,859	16,650,341
-	2,677,291	35,619	3,806,938
-	-	2,571,068	2,907,247
12,544	6,117	2,869	27,870
49,691	198,766	8,167	256,624
12,371,265	-	230,000	14,010,599
386,689	-	68,287	2,066,093
-	-	15,884	140,551
-	-	2,796	730,497
360,000	-	9,032,509	10,267,509
<u>20,778,994</u>	<u>6,517,735</u>	<u>13,665,058</u>	<u>50,864,269</u>
12,346	1,746,085	553,494	2,895,693
2,790	-	52,361	81,181
-	-	106	140,551
-	-	-	22,348
-	-	25,000	25,000
7,889,265	-	62,500	9,707,541
<u>7,904,401</u>	<u>1,746,085</u>	<u>693,461</u>	<u>12,872,314</u>
150,565	-	1,265,867	1,458,485
-	-	500,000	500,000
4,482,000	-	230,000	4,935,349
386,689	-	68,287	1,605,039
360,000	-	9,032,509	10,267,509
-	-	-	971,837
-	4,771,650	-	5,865,678
<u>7,495,339</u>	<u>-</u>	<u>1,874,934</u>	<u>12,388,058</u>
<u>12,874,593</u>	<u>4,771,650</u>	<u>12,971,597</u>	<u>37,991,955</u>
<u>20,778,994</u>	<u>6,517,735</u>	<u>13,665,058</u>	<u>50,864,269</u>

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Reconciliation of the Balance Sheet of Governmental Funds
to the Government-Wide Statement of Net Assets

June 30, 2010

Fund balances of governmental funds	\$ 37,991,955
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets, net of depreciation, have not been included as financial
resources in governmental fund activity.

Capital assets	4,581,163
Accumulated depreciation	(1,949,497)

Long term debt and compensated absences have not been included in the
governmental funds:

Tax allocation bonds payable	(37,455,000)
HUD 108 Bond 2003 A	(5,750,000)
Advances from City	(739,966)

Certain revenues were not available to pay for current-period expenditures and, therefore, were deferred in the governmental funds.	9,707,541
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Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	<u>(141,471)</u>
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Net assets (deficit) of governmental activities	<u>\$ 6,244,725</u>
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See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2010

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	HUD Program Income	HOME Program
Revenues:				
Property taxes	\$ -	-	-	-
Subventions and grants	817,696	9,704,442	-	631,387
Interest income	-	-	18,565	79,788
Other income	-	75	396	-
Total revenues	<u>817,696</u>	<u>9,704,517</u>	<u>18,961</u>	<u>711,175</u>
Expenditures:				
Current:				
Personnel services	79,332	861,884	-	39,905
Special services	3,069	15,902	-	4,778
Community development	218,991	8,540,361	86,924	240,445
Capital outlay	253,729	-	-	-
Culture and leisure	76,676	-	-	-
Debt Service:				
Principal payments	225,000	-	-	-
Interest and fiscal charges	<u>170,776</u>	<u>-</u>	<u>137,786</u>	<u>-</u>
Total expenditures	<u>1,027,573</u>	<u>9,418,147</u>	<u>224,710</u>	<u>285,128</u>
Excess (deficiency) of revenues over (under) expenditures	(209,877)	286,370	(205,749)	426,047
Other financing sources (uses):				
Transfers to the City	-	-	(200,131)	-
Transfers from the City	394,000	-	-	-
Transfers in (note 3)	128,489	608,152	-	-
Transfers out (note 3)	-	-	(1,056,370)	-
Proceeds of advance from City	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>522,489</u>	<u>608,152</u>	<u>(1,256,501)</u>	<u>-</u>
Net change in fund balance	312,612	894,522	(1,462,250)	426,047
Fund balance (deficit), beginning of year, as restated (note 11)	<u>(37,064)</u>	<u>184,513</u>	<u>3,265,382</u>	<u>3,790,353</u>
Fund balance, end of year	<u>\$ 275,548</u>	<u>1,079,035</u>	<u>1,803,132</u>	<u>4,216,400</u>

See accompanying notes to the basic financial statements.

<u>Low and</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>Moderate Income Housing Program</u>	<u>Redevelopment Fund</u>	<u>Redevelopment Fund</u>	<u>Governmental Funds</u>
2,796,072	11,184,289	-	13,980,361
-	-	160,066	11,313,591
264,663	33,746	102,104	498,866
-	-	368,251	368,722
<u>3,060,735</u>	<u>11,218,035</u>	<u>630,421</u>	<u>26,161,540</u>
97,081	-	2,368,905	3,447,107
-	10,089	159,752	193,590
573,831	7,395,921	217,317	17,273,790
-	-	2,034,918	2,288,647
-	-	-	76,676
-	2,225,000	-	2,450,000
-	1,796,282	-	2,104,844
<u>670,912</u>	<u>11,427,292</u>	<u>4,780,892</u>	<u>27,834,654</u>
2,389,823	(209,257)	(4,150,471)	(1,673,114)
-	-	(666,667)	(866,798)
-	-	-	394,000
927,881	826,093	-	2,490,615
(1,434,245)	-	-	(2,490,615)
-	-	739,966	739,966
<u>(506,364)</u>	<u>826,093</u>	<u>73,299</u>	<u>267,168</u>
1,883,459	616,836	(4,077,172)	(1,405,946)
<u>10,991,134</u>	<u>4,154,814</u>	<u>17,048,769</u>	<u>39,397,901</u>
<u>12,874,593</u>	<u>4,771,650</u>	<u>12,971,597</u>	<u>37,991,955</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Government-Wide Statements of Activities

For the Year Ended June 30, 2010

Changes in fund balances of governmental funds	\$ (1,405,946)
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Amounts reported for governmental activities in the statement of activities
differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	(81,667)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,450,000
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Proceeds from advances from the City of National City is reported as long term liabilities in governmental funds. The advance increases liabilities in the statement of net assets, but does not result in an increase in net assets in	(739,966)
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The statement of activities includes accrued interest on long-term debt. This is the net change in interest payable expense for the current period.	(11,910)
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Revenues in the government-wide statement of activities that did not provide current financial resources were not reported as revenues in the governmental funds.	<u>(819,715)</u>
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Change in net assets of governmental activities	<u>\$ (609,204)</u>
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See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets - Enterprise Funds

June 30, 2010

	Kimball Towers	Morgan Towers	Total
<u>Assets</u>			
Current assets:			
Cash and investments (notes 2 and 5)	\$ 75,886	9,103	84,989
Accounts receivable	490	-	490
Prepaid expense	76,979	80,280	157,259
Total current assets	153,355	89,383	242,738
Restricted cash and investments with fiscal agent (notes 2 and 5)	1,044,470	673,068	1,717,538
Noncurrent assets:			
Capital assets (note 6):			
Nondepreciable assets	315,814	212,568	528,382
Depreciable capital assets, net of accumulated depreciation	4,565,917	2,535,610	7,101,527
Total capital assets	4,881,731	2,748,178	7,629,909
Total assets	6,079,556	3,510,629	9,590,185
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	172,028	174,981	347,009
Notes payable-due within one year (note 7)	-	204,777	204,777
Total current liabilities	172,028	379,758	551,786
Noncurrent liabilities:			
Tenant security deposit liability	43,977	44,898	88,875
Note Payable-due in more than one year (note 7)	-	2,276,885	2,276,885
Total noncurrent liabilities	43,977	2,321,783	2,365,760
Total liabilities	216,005	2,701,541	2,917,546
<u>Net Assets</u>			
Invested in capital assets, net of related debt	4,881,731	266,516	5,148,247
Restricted for:			
Housing	981,820	542,572	1,524,392
Total net assets	\$ 5,863,551	809,088	6,672,639

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds

Year ended June 30, 2010

	Kimball Towers	Morgan Towers	Total
Operating revenues:			
Rental income	\$ 880,569	1,168,845	2,049,414
Other	<u>7,259</u>	<u>7,042</u>	<u>14,301</u>
Total operating revenues	<u>887,828</u>	<u>1,175,887</u>	<u>2,063,715</u>
Operating expenses:			
Maintenance and operation	1,207,062	1,037,683	2,244,745
Depreciation	<u>187,350</u>	<u>240,998</u>	<u>428,348</u>
Total operating expenses	<u>1,394,412</u>	<u>1,278,681</u>	<u>2,673,093</u>
Operating income (loss)	<u>(506,584)</u>	<u>(102,794)</u>	<u>(609,378)</u>
Nonoperating revenues (expenses):			
Interest income	3,847	3,096	6,943
Interest expense	<u>-</u>	<u>(180,982)</u>	<u>(180,982)</u>
Total nonoperating revenues (expense)	<u>3,847</u>	<u>(177,886)</u>	<u>(174,039)</u>
Change in net assets	(502,737)	(280,680)	(783,417)
Net assets at beginning of year	<u>6,366,288</u>	<u>1,089,768</u>	<u>7,456,056</u>
Net assets at end of year	<u>\$ 5,863,551</u>	<u>809,088</u>	<u>6,672,639</u>

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Cash Flows - Enterprise Funds

Year ended June 30, 2010

	Kimball Towers	Morgan Towers	Total
Cash flows from operating activities:			
Cash received from customers and government agencies	\$ 884,039	1,174,031	2,058,070
Cash payments to employees for services	-	(176,029)	(176,029)
Cash payments to suppliers for goods and services	(1,188,477)	(771,250)	(1,959,727)
Cash received for other operating activities	7,259	7,042	14,301
Net cash provided by (used for) operating activities	(297,179)	233,794	(63,385)
Cash flows from investing activities:			
Purchase of property plant and equipment	(30,417)	-	(30,417)
Net cash provided by (used for) investing activities	(30,417)	-	(30,417)
Cash flows from financing activities:			
Principal payments on note payable	-	(191,924)	(191,924)
Interest income	3,847	3,796	7,643
Interest expense	-	(180,982)	(180,982)
Net cash provided by (used for) financing activities	3,847	(369,110)	(365,263)
Increase (decrease) in cash and investments	(323,749)	(135,316)	(459,065)
Cash and investments (including cash and investments with fiscal agent):			
Beginning of year	1,444,105	817,487	2,261,592
End of year	1,120,356	682,171	1,802,527
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	(506,584)	(102,794)	(609,378)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	187,350	240,998	428,348
(Increase) decrease in accounts receivable	2,577	5,186	7,763
(Increase) decrease in prepaid expenses	(29,868)	845	(29,023)
Increase (decrease) in accounts payable and accrued liabilities	49,346	89,559	138,905
Total adjustments	209,405	336,588	545,993
Net cash provided by (used for) operating activities	\$ (297,179)	233,794	(63,385)

Noncash investing, capital and financing activities

There were no significant noncash investing, capital or financing activities for the year ended June 30, 2010.

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

Year ended June 30, 2010

(1) Summary of Significant Accounting Policies

The basic financial statements of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City (the "City"), have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the Commission.

(a) Description of the Reporting Entity

The Community Development Commission of the City of National City (the "Commission") was established in April 1967 pursuant to provisions of the California Health and Safety Code. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City") and, accordingly, is a component unit of the City, although it is a separate legal entity. The Commission's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities and to assist neighborhood redevelopment through residential property improvement loans and housing assistance payments to low and moderate income earners. The Commission accounts for its financial position and operations in accordance with generally accepted accounting principles in the United States applicable to governmental units.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government – Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Government – Wide Financial Statements, (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the Commission's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Commission in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Interfund transfers have been eliminated as prescribed by GASB Statement No. 34 in regards to interfund activities.

Fund Financial Statements

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Commission's governmental and proprietary funds are presented after the government-wide financial statements. An accompanying schedule is presented for the governmental funds to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all major funds that met the applicable criteria.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses a sixty day availability period. The primary revenue sources, which have been treated as susceptible to accrual by the Commission, are property tax, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of *available spendable resources*. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of the GASB Statement No. 34.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Proprietary Funds

The Commission's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Kimball Towers and Morgan Towers are charges to tenants for housing low and moderate income seniors, which is subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

Major Funds

The Commission reports the following major governmental funds:

Community Development Block Grant – To account for activities related to the annual grant from the Department of Housing and Urban Development to assist in developing viable urban community by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate income persons.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Major Funds, (Continued)

Section 8 Housing Assistance – To provide rental assistance to low income families by subsidizing a portion of the rent directly to landlords on behalf of low income households.

HUD Program Income – To provide for the funding of Community Development Block Grant program activities as approved by the City Council utilizing HUD program income.

HOME Program – To account for activities related to the annual grant from the Department of Housing and Urban Development to administer programs designed to provide decent affordable housing, expand capacity of nonprofit housing providers, and to leverage private sector participation.

Low and Moderate Income Housing Program – To account for the tax increment which is required to be set aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing.

Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of principal, interest, and related costs of the Commission's long-term debt.

Redevelopment Capital Projects Fund – To account for the administrative expenditures of the Commission and redevelopment capital projects.

In addition, the Commission also reports the following major proprietary funds:

Kimball Towers – To account for the activities relating to the operations of Kimball Tower which use is restricted to housing low and moderate income seniors.

Morgan Towers – To account for the activities relating to the operations of Morgan Tower which use is restricted to housing low and moderate income seniors.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Cash and Investments

The Commission's investment policy authorizes deposits in any of the approved investments contained in the California Government Code Sections 53600 et seq. During the year ended June 30, 2010, the Commission complied with these policies.

Investment income earned on unrestricted cash is allocated to the Commission's various funds as required by grant/loan agreements or at the Board's discretion.

The Commission pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Commission participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

(d) Land Held for Resale

Land held for resale is recorded at the lower of cost or, upon entering into a contract for sale, the estimated net realizable value. Fund balances are reserved in amounts equal to the carrying value of land and buildings held for resale, because such assets are not available to finance the Commission's current operations.

(e) Use of Restricted/Net Assets

When an expense is incurred for purposes for which both restricted net assets are available, the Commission's policy is to apply restricted net assets first.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

(g) Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

(h) Long-Term Liabilities

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the primary government’s governmental activity.

Fund Financial Statements – The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

(i) Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Fund Balances – Reservations and Designations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Property Tax Increment

One of the Commission's primary sources of revenue is from property tax increments. The assessed valuation of all property within the Downtown Redevelopment Project area was determined on the date of adoption of the Redevelopment Plan. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and unrelated taxing agencies.

(l) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Enterprise Fund Restricted Cash

In accordance with Department of Housing and Urban Development (HUD) requirements, the Morgan Towers Enterprise Fund maintains the following restricted cash accounts:

- Reserve for replacements of \$428,091 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.
- Residual receipts reserve of \$226,604 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Reserve for MIP and insurance impounds of \$10,498 and \$7,875, respectively, totaling \$18,373, which represents amounts held for the future payment of property and mortgage insurance.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(2) Enterprise Fund Restricted Cash, (Continued)

Additionally, the Kimball Towers Enterprise Fund maintains the following HUD restricted cash accounts:

- Residual receipts reserve of \$304,710 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Other restricted cash and investments totaling \$739,760 are included in the accompanying basic financial statements.

(3) Transfers In/Transfers Out

The following schedule summarizes the Commission's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Community Development Block Grant Fund	HUD Program Income Special Revenue Fund	\$ 128,489 (a)
Low and Moderate Income Housing Fund	HUD Program Income Special Revenue Fund	927,881 (b)
Section 8 Housing Assistance Special Revenue Fund	Low and Moderate Income Housing Fund	608,152 (c)
Redevelopment Debt Service Fund	Low and Moderate Income Housing Fund	<u>826,093 (d)</u>
Total		<u>\$2,490,615</u>

(a) Transfer for expenditure recovery.

(b) Transfer for expenditure recovery as approved by Council resolution for the Casa Familiar acquisition and rehabilitation project.

(c) Transfers for operating subsidy.

(d) The Low and Moderate Income Housing Fund transferred \$826,093 to the Redevelopment Debt Service Fund to fund a portion of the 1999 and 2005 Tax Allocation Bonds (18% of series A) debt service payments that related to low and moderate development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(4) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 20010 are as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Section 8 Housing Fund	Redevelopment Capital Projects Fund	\$ 106
HUD Program Income	Community Development Block Grant	124,561 (a)
Redevelopment Capital Projects Fund	Section 8 Housing Fund	<u>15,884 (b)</u>
Total		<u>\$140,551</u>

(a) To liquidate deficit cash in Community Development Block Grant fund.

(b) To temporarily advance the funding to the Section 8 housing program to cover anticipated HUD funding shortfall.

(5) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$16,735,330
Cash and investments with fiscal agent	<u>5,524,476</u>
Total cash and investments	<u>\$22,259,806</u>

Cash and investments as of June 30, 2010 consist of the following:

Petty cash	\$ 150
Deposits with financial institutions	552,830
Investments	<u>21,706,826</u>
Total cash and investments	<u>\$22,259,806</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the Commission's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are generally authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	None	None	None
Mortgage Pass-Through Securities	None	None	None
State Bonds or Notes	None	None	None
Municipal Bonds or Notes	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Commission's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
U.S. Agency Securities	\$ 1,195,075	-	-	1,195,075
Local Agency Investment Fund (LAIF)	14,987,275	14,987,275	-	-
Money Market Funds	1,717,538	1,717,538	-	-
Held by Fiscal Agent:				
Money Market Funds	<u>3,806,938</u>	<u>3,806,938</u>	<u>-</u>	<u>-</u>
Total	<u>\$21,706,826</u>	<u>20,511,751</u>	<u>-</u>	<u>1,195,075</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Ratings as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
U.S. Agency Securities	\$ 1,195,075	AAA	1,195,075	-
Local Agency Investment Fund (LAIF)	14,987,275	N/A	-	14,987,275
Money Market Funds	1,717,538	N/A	-	1,717,538
Held by Fiscal Agent:				
Money Market Funds	<u>3,806,938</u>	A	<u>3,806,938</u>	<u>-</u>
Total	<u>\$21,706,826</u>		<u>5,002,013</u>	<u>16,704,813</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets

The following is a summary of capital assets for the year ended June 30, 2010:

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
<u>Government Activities:</u>				
Capital assets:				
Buildings and improvements	\$2,450,000	-	-	2,450,000
Machinery and equipment	<u>81,163</u>	<u>-</u>	<u>-</u>	<u>81,163</u>
Total cost of depreciable capital assets	<u>2,531,163</u>	<u>-</u>	<u>-</u>	<u>2,531,163</u>
Less accumulated depreciation:				
Buildings and improvements	(1,786,667)	(81,667)	-	(1,868,334)
Machinery and equipment	<u>(81,163)</u>	<u>-</u>	<u>-</u>	<u>(81,163)</u>
Total accumulated depreciation	<u>(1,867,830)</u>	<u>(81,667)</u>	<u>-</u>	<u>(1,949,497)</u>
Depreciable capital assets, net	663,333	(81,667)	-	581,666
Capital assets not depreciated:				
Land	<u>2,050,000</u>	<u>-</u>	<u>-</u>	<u>2,050,000</u>
Capital assets, net	<u>\$2,713,333</u>	<u>(81,667)</u>	<u>-</u>	<u>2,631,666</u>

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2010 was \$81,667 which was allocated to community development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>
<u>Business-Type Activities:</u>				
Depreciable assets:				
Buildings and improvements	\$15,654,166	30,418	-	15,684,584
Furniture and equipment	<u>462,153</u>	<u>-</u>	<u>-</u>	<u>462,153</u>
Total cost of depreciable assets	<u>16,116,319</u>	<u>30,418</u>	<u>-</u>	<u>16,146,737</u>
Less accumulated depreciation:				
Buildings and improvements	(8,524,664)	(413,500)	-	(8,938,164)
Furniture and equipment	<u>(92,198)</u>	<u>(14,848)</u>	<u>-</u>	<u>(107,046)</u>
Total accumulated depreciation	<u>(8,616,862)</u>	<u>(428,348)</u>	<u>-</u>	<u>(9,045,210)</u>
Depreciable capital assets, net	7,499,457	(410,421)	-	7,101,527
Capital assets not depreciated:				
Land	<u>528,382</u>	<u>-</u>	<u>-</u>	<u>528,382</u>
Capital assets, net	<u>\$ 8,027,839</u>	<u>(397,930)</u>	<u>-</u>	<u>7,629,909</u>

Depreciation expense in business-type activities for capital assets for the year ended June 30, 2010 was \$428,348 which was allocated to low and moderate housing.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Loans Receivable

	<u>Outstanding at June 30, 2010</u>
First time home buyer loans	<u>\$ 2,066,093</u>
Loans	
Copper Hills Apartments, LP	8,057,792
Plaza Manor	500,558
Single-Family Housing Rehabilitation Loan Program	223,349
Young Trust	230,000
Casa Familiar	1,576,900
Plaza City	<u>3,422,000</u>
Subtotal	<u>14,010,599</u>
Total	<u>\$16,076,692</u>

Copper Hills Apartments, LP – CDC Residual Receipts Note dated February 19, 1999 disclosed a loan of \$2,400,000 with 3% interest per annum for 55 years, funded by HOME and Low & Moderate Income Housing Funds. A second and junior to the CDC Residual Receipts Note was made on June 1, 1999 referred to as CDC Rehabilitation Note with 3% interest per annum for 55 years and funded by Low & Moderate Income Housing Fund. These loans were made to acquire, develop, rehabilitate and operate the multi-family apartments located at “Q” Avenue in National City, Ca. This project will contain 134 apartment dwelling units following rehabilitation and renovation.

Plaza Manor – CDC of the City of National City entered into a loan agreement with Plaza Manor Preservation, LP on December 18, 2001 in the amount of \$500,000 with 3% compound interest per annum and shall end on April 15, 2032. The borrower has acquired a property located in the City of National City with aid of the said loan and with the intention to operate a 372 unit project as a very low and low income housing project. Funding sources for this loan were HOME (48%) and Low & Moderate Income Housing Funds (52%).

Single-Family Housing Rehabilitation Loan Program – Prior to 2005, the CDC of the City of National City provided loans to eligible low-income homeowners to make repairs and basic home improvements that maintain the quality of their housing and created a positive effect in the surrounding neighborhood. Loans were offered at below-market interest rates utilizing federal HOME Investment Partnerships Program funds.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Loans Receivable, (Continued)

Young Trust – A Promissory Note secured by Deed of Trust was made on December 17, 2003 between CDC of the City of National City and Robert Dale Young and Deborah Mae Young in the amount of \$230,000 with interest of 5% per year. This loan is in reference to the California Community Redevelopment Law, where CDC appeals to redevelop a portion of the National City Redevelopment project, which is bounded by the location at Harrison Avenue, National City.

Casa Familiar – CDC of the City of National City entered in an Acquisition, Rehabilitation and Permanent Loan Agreement with Casa Familiar, Inc. on October 1, 2009 amounting to \$516,900 with 2% per annum from the date of the disbursement. Interest shall accrue, however, no payments shall be due under the CDC Note until July 1, 2011, and annually on July 1 of each year during the term of the CDC note, and Borrower shall make payments to the CDC in the manner provided in the CDC note until 55 years. This loan was intended to acquire, rehabilitate and permanently finance the property located at 304 East Fifth Street, National City, CA and is comprised entirely of HUD HOME funds all of which shall be used for HOME eligible purposes.

Plaza City – CDC of the City of National City entered into a Loan Agreement with Plaza City Apartments, LP on November 1, 2005 in the amount of \$2,700,000 with 3% interest per annum for 55 years. It was amended per Resolution No. 2006-202 dated September 19, 2006 which increased the loan amount by \$722,000 for a total of \$3,422,000. This loan will be used by the borrower to pay the balance of the purchase price and additional costs relating to the acquisition, demolition and development of certain real property located at 1535 Plaza Blvd., National City, CA.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year	Amount Due Beyond One Year
Governmental Activities:						
Bonds payable:						
1999 Tax Allocation Bonds	\$4,210,000	-	(120,000)	4,090,000	125,000	3,965,000
2004 Series Tax Allocation Bonds	4,885,000	-	(265,000)	4,620,000	275,000	4,345,000
2005 Series A Tax Allocation Bonds	20,745,000	-	(1,840,000)	18,905,000	2,125,000	16,780,000
2005 Series B Tax Allocation Bonds	9,840,000	-	-	9,840,000	-	9,840,000
HUD 108 Bond 2003 A	<u>5,975,000</u>	<u>-</u>	<u>(225,000)</u>	<u>5,750,000</u>	<u>245,000</u>	<u>5,505,000</u>
Total bonds payable	<u>45,655,000</u>	<u>-</u>	<u>(2,450,000)</u>	<u>43,205,000</u>	<u>2,770,000</u>	<u>40,435,000</u>
Advance from City	<u>-</u>	<u>739,966</u>	<u>-</u>	<u>739,966</u>	<u>-</u>	<u>739,966</u>
Total governmental activities	<u>45,655,000</u>	<u>739,966</u>	<u>(2,450,000)</u>	<u>43,944,966</u>	<u>2,770,000</u>	<u>41,174,966</u>
Business-Type Activities:						
Notes Payable	<u>2,673,585</u>	<u>-</u>	<u>(191,923)</u>	<u>2,481,662</u>	<u>204,777</u>	<u>2,276,885</u>
Total business-type activities	<u>2,673,585</u>	<u>-</u>	<u>(191,923)</u>	<u>2,481,662</u>	<u>204,777</u>	<u>2,276,885</u>
Total	<u>\$48,328,585</u>	<u>-</u>	<u>(2,641,923)</u>	<u>45,426,628</u>	<u>2,974,777</u>	<u>43,451,851</u>

1999 Tax Allocation Bonds

In June 1999, the Commission issued \$5,050,000 in Tax Allocation Bonds for the Q Avenue Redevelopment project. The bonds consist of \$1,085,000 in serial bonds which mature from 2000 to 2010 in amounts ranging from \$45,000 to \$125,000, and \$1,425,000 in term bonds which mature in 2019, and \$2,540,000 in term bonds which mature in 2029. Interest is payable semi-annually on February 1 and August 1, at interest rates ranging from 3.30% to 4.50%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 1999 Tax Allocation Bonds outstanding at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 125,000	204,237	329,237
2012	130,000	198,175	328,175
2013	135,000	191,550	326,550
2014	145,000	184,550	329,550
2015	150,000	177,176	327,176
2016	155,000	169,550	324,550
2017	165,000	161,549	326,549
2018	175,000	153,050	328,050
2019	180,000	144,175	324,175
2020	190,000	134,925	324,925
2021	200,000	125,050	325,050
2022	210,000	114,543	324,543
2023	220,000	103,525	323,525
2024	235,000	91,866	326,866
2025	245,000	79,566	324,566
2026	260,000	66,625	326,625
2027	270,000	53,044	323,044
2028	285,000	38,822	323,822
2029	300,000	23,831	323,831
2030	<u>315,000</u>	<u>8,072</u>	<u>323,072</u>
Total	<u>\$4,090,000</u>	<u>2,423,881</u>	<u>6,513,881</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

2004 Tax Allocation Bonds

In June 2004, the Commission issued \$5,860,000 in Tax Allocation Bonds to finance a portion of the cost to construct a fire station, library, and community art center. The bonds consist of \$3,045,000 in serial bonds which mature from 2005-2015 in amounts ranging from \$220,000 to \$330,000, and \$1,085,000 in term bonds which matures in fiscal year 2029. Interest is paid semi-annually on February 1 and August 1, at interest rates ranging from 1.50% to 5.50%.

The annual debt service requirements for the 2004 Tax Allocation Bonds outstanding at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 275,000	214,685	489,685
2012	285,000	204,880	489,880
2013	295,000	194,145	489,145
2014	305,000	182,440	487,440
2015	315,000	169,883	484,883
2016	330,000	156,413	486,413
2017	-	149,440	149,440
2018	-	149,440	149,440
2019	-	149,440	149,440
2020	-	149,440	149,440
2021	-	149,440	149,440
2022	-	149,440	149,440
2023	-	149,440	149,440
2024	-	149,440	149,440
2025	-	149,440	149,440
2026	-	149,440	149,440
2027	345,000	140,775	485,775
2028	360,000	123,150	483,150
2029	380,000	104,650	484,650
2030	400,000	84,150	484,150
2031	420,000	61,600	481,600
2032	445,000	37,813	482,813
2033	<u>465,000</u>	<u>12,788</u>	<u>477,788</u>
Total	<u>\$4,620,000</u>	<u>3,181,772</u>	<u>7,801,772</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

2005 Series A Tax Allocation Bonds

In January 2005, the Commission issued \$27,940,000 in Tax Allocation Bonds, Series A for the purpose of refunding the Commission's 2001 Series A Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 2.9% to 4.85% per annum.

The annual debt service requirements for the 2005 Series A Tax Allocation Bonds outstanding at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,125,000	879,725	3,004,725
2012	3,060,000	788,350	3,848,350
2013	3,200,000	650,650	3,850,650
2014	3,345,000	503,450	3,848,450
2015	3,505,000	346,235	3,851,235
2016	<u>3,670,000</u>	<u>177,995</u>	<u>3,847,995</u>
Total	<u>\$18,905,000</u>	<u>3,346,405</u>	<u>22,251,405</u>

2005 Series B Tax Allocation Bonds

In January 2005, the Commission issued \$9,840,000 in Tax Allocation Bonds, Series B for the purpose of refunding the Commission's 2001 Series B Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 3.8% to 5.25% per annum.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 2005 Series B Tax Allocation Bonds outstanding at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	444,693	444,693
2012	-	444,693	444,693
2013	-	444,693	444,693
2014	-	444,693	444,693
2015	-	444,693	444,693
2016	-	444,693	444,693
2017	760,000	444,693	1,204,693
2018	790,000	415,813	1,205,813
2019	825,000	385,003	1,210,003
2020	855,000	352,003	1,207,003
2021	890,000	317,803	1,207,803
2022	570,000	277,753	847,753
2023	595,000	253,528	848,528
2024	780,000	227,943	1,007,943
2025	815,000	194,013	1,009,013
2026	855,000	153,263	1,008,263
2027	555,000	110,513	665,513
2028	435,000	81,375	516,375
2029	250,000	58,538	308,538
2030	200,000	45,413	245,413
2031	210,000	34,913	244,913
2032	220,000	23,888	243,888
2033	<u>235,000</u>	<u>12,338</u>	<u>247,338</u>
Total	<u>\$9,840,000</u>	<u>6,056,951</u>	<u>15,896,951</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

2003 A HUD 108 Bond

The City issued \$6,900,000 of HUD 108 Bonds, Series A on August 7, 2003 to provide funds for the construction of a fire station. The bonds mature annually through 2024 in the amount ranging from \$170,000 to \$635,000 beginning in 2005. The interest of the bonds is payable semi-annually on each February 1 and August 1, commencing February 1, 2004.

The annual debt service payments for the bonds outstanding are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 245,000	297,269	542,269
2012	260,000	286,413	546,413
2013	280,000	274,117	554,117
2014	305,000	260,227	565,227
2015	325,000	244,850	569,850
2016	350,000	227,967	577,967
2017	380,000	209,233	589,233
2018	410,000	188,528	598,528
2019	440,000	165,847	605,847
2020	475,000	141,044	616,044
2021	510,000	113,975	623,975
2022	545,000	84,640	629,640
2023	590,000	52,770	642,770
2024	<u>635,000</u>	<u>18,066</u>	<u>653,066</u>
Total	<u>\$5,750,000</u>	<u>2,564,946</u>	<u>8,314,946</u>

Advance from City

In 2010 the City of National City advanced to the Community Development Commission \$739,966 at an interest rate of 3.96% to be paid back over 10 years. Accrued interest and principal payments are due on an annual basis. The amount outstanding as of June 30, 2010 is \$739,966.

Note Payable

The mortgage payable is secured by a deed of trust, bears interest at 6.5% and is payable to GMAC in the amount of \$3,718,928. The note is being repaid in monthly installments of \$30,005, including interest, through August 2019. The note is insured by HUD and is secured by substantially all property and equipment of the Morgan Towers Enterprise Fund.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(8) Long-Term Liabilities, (Continued)

The annual principal payments of the note payable outstanding at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 204,777	155,283	360,060
2012	218,492	141,568	360,060
2013	233,124	126,936	360,060
2014	248,736	111,324	360,060
2015	265,395	94,665	360,060
2016	283,170	76,890	360,060
2017	302,136	57,924	360,060
2018	322,368	37,692	360,060
2019	343,957	16,103	360,060
2020	<u>59,507</u>	<u>503</u>	<u>60,010</u>
Total	<u>\$2,481,662</u>	<u>818,888</u>	<u>3,300,550</u>

Defeasance of Debt

As of June 30, 2010, the outstanding balance of defeased issues are as follows:

2001 Series A Tax Allocation Bonds (Series A & B)	\$34,105,000
1998 Tax Allocation Bonds	11,930,000

(9) Commitments and Contingencies

Grant funds received by the Commission are subject to review by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. The management of the Commission believes that such disallowances, if any, will not be significant.

(10) National City Joint Powers Financing Authority

The National Joint Powers Financing Authority ("JPFA") was created pursuant to a joint exercise of powers agreement entered into by and between the Commission and the City of National City on April 16, 1991. The purpose of such agreement was to provide for the financing and construction of the new police facility and Community Center. The JPFA is administered by a commission consisting of the members of the City Council and all voting power of JPFA resides in the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2010 exceeded the appropriations of the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Section 8 Housing Assistance	\$9,268,420	9,418,147	(149,727)

(12) Pledged Revenues

The Commission has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Tax increment revenues	\$11,184,289	4,021,282	36%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(13) Prior Period Adjustment

The accompanying financial statements include adjustments that resulted in the restatements of beginning fund balances/net assets. The following summarizes the effect of the prior period adjustments to beginning fund balance as of July 1, 2009:

	Capital Projects Fund – Redevelopment <u>Fund</u>	HOME Program Special Revenue <u>Fund</u>
Fund balance-beginning of year, as previously reported	\$16,213,769	4,217,703
To recognize revenues earned in prior year previously deferred	835,000	-
To adjust land held for resale for transactions improperly recorded or unrecorded in prior years	-	(427,350)
Fund balance-beginning of year, as restated	<u>\$17,048,769</u>	<u>3,790,353</u>

The following summarizes the effect of the prior period adjustments to beginning net assets as of July 1, 2009:

	<u>Government-Wide Statement of Net Assets</u>
Net Assets-beginning of year, as previously reported	\$ (3,121,413)
To record notes receivable previously unrecorded in prior years	<u>9,975,342</u>
Net Assets-beginning of year, as restated	<u>\$ 6,853,929</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to the Required Supplementary Information

Year ended June 30, 2010

(1) Budgetary Information

The Commission adopts an annual budget prepared on the modified accrual basis of accounting for all governmental fund types. The Executive Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Board of Directors. All annual appropriations lapse at fiscal year-end except for unexpended purchase orders or contracts and unexpended appropriations for capital projects. Total expenditures may not legally exceed total appropriations at the fund level.

(2) Required Disclosures

Expenditures for the year ended June 30, 2010 exceeded the appropriations of the following major special revenue fund:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Section 8 Housing Assistance	\$9,268,420	9,418,147	(149,727)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Community Development Block Grant - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 1,107,495	1,107,495	817,696	(289,799)
Total revenues	1,107,495	1,107,495	817,696	(289,799)
Expenditures:				
Current:				
Personnel services	62,260	62,260	79,332	(17,072)
Special services	11,355	11,355	3,069	8,286
Community development	247,914	247,914	218,991	28,923
Culture and leisure	83,130	83,130	76,676	6,454
Capital outlay	863,439	863,439	253,729	609,710
Debt Service:				
Principal	-	-	225,000	(225,000)
Interest and fiscal charges	1,776	1,776	170,776	(169,000)
Total expenditures	1,269,874	1,269,874	1,027,573	242,301
Excess (deficiency) of revenues over expenditures	(162,379)	(162,379)	(209,877)	(47,498)
Other financing sources (uses):				
Transfers from the City	-	-	394,000	394,000
Transfers in	-	-	128,489	128,489
Transfers out	(241,334)	(241,334)	-	241,334
Total other financing sources (uses)	(241,334)	(241,334)	522,489	763,823
Net change in fund balance	(403,713)	(403,713)	312,612	716,325
Fund balance (deficit), beginning of year	(37,064)	(37,064)	(37,064)	-
Fund balance (deficit), end of year	\$ (440,777)	(440,777)	275,548	716,325

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Section 8 Housing Assistance - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 7,459,000	8,659,000	9,704,442	1,045,442
Other income	-	-	75	75
Total revenues	<u>7,459,000</u>	<u>8,659,000</u>	<u>9,704,517</u>	<u>1,045,517</u>
Expenditures:				
Current:				
Personnel services	837,244	837,244	861,884	(24,640)
Special services	31,739	31,739	15,902	15,837
Community development	<u>7,827,237</u>	<u>8,399,437</u>	<u>8,540,361</u>	<u>(140,924)</u>
Total expenditures	<u>8,696,220</u>	<u>9,268,420</u>	<u>9,418,147</u>	<u>(149,727)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,237,220)	(609,420)	286,370	895,790
Other financing sources (uses):				
Transfers in	<u>1,215,884</u>	<u>1,215,884</u>	<u>608,152</u>	<u>(607,732)</u>
Total other financing sources (uses)	<u>1,215,884</u>	<u>1,215,884</u>	<u>608,152</u>	<u>(607,732)</u>
Net change in fund balance	(21,336)	606,464	894,522	288,058
Fund balance, beginning of year	<u>184,513</u>	<u>184,513</u>	<u>184,513</u>	<u>-</u>
Fund balance, end of year	<u>\$ 163,177</u>	<u>790,977</u>	<u>1,079,035</u>	<u>288,058</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

HUD Program Income - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	-	18,565	18,565
Other income	-	-	396	396
Total revenues	-	-	18,961	18,961
Expenditures:				
Current:				
Community development	1,008,553	1,008,553	86,924	921,629
Culture and leisure	-	-	-	-
Debt service:				
Principal	1,254,500	1,254,500	-	1,254,500
Interest and fiscal charges	1,036,650	1,036,650	137,786	898,864
Total expenditures	3,299,703	3,299,703	224,710	3,074,993
Excess (deficiency) of revenues over expenditures	(3,299,703)	(3,299,703)	(205,749)	3,093,954
Other financing sources (uses):				
Transfer to City of National City	-	-	(200,131)	(200,131)
Transfers out	-	-	(1,056,370)	(1,056,370)
Total other financing sources (uses)	-	-	(1,256,501)	(1,256,501)
Net change in fund balance	(3,299,703)	(3,299,703)	(1,462,250)	1,837,453
Fund balance, beginning of year	3,265,382	3,265,382	3,265,382	-
Fund balance (deficit), end of year	\$ (34,321)	(34,321)	1,803,132	1,837,453

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

HOME Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 1,201,730	1,201,730	631,387	(570,343)
Interest income	-	-	79,788	79,788
Total revenues	<u>1,201,730</u>	<u>1,201,730</u>	<u>711,175</u>	<u>(490,555)</u>
Expenditures:				
Current:				
Personnel services	72,784	72,784	39,905	32,879
Special services	10,781	10,781	4,778	6,003
Community development	<u>1,016,317</u>	<u>1,016,317</u>	<u>240,445</u>	<u>775,872</u>
Total expenditures	<u>1,099,882</u>	<u>1,099,882</u>	<u>285,128</u>	<u>814,754</u>
Net change in fund balance	101,848	101,848	426,047	324,199
Fund balance, beginning of year, as restated	<u>3,790,353</u>	<u>3,790,353</u>	<u>3,790,353</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,892,201</u>	<u>3,892,201</u>	<u>4,216,400</u>	<u>324,199</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Low and Moderate Income Housing Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 2,808,046	2,808,046	2,796,072	(11,974)
Interest income	200,000	200,000	264,663	64,663
Total revenues	3,008,046	3,008,046	3,060,735	52,689
Expenditures:				
Current:				
Personnel services	191,489	191,489	97,081	94,408
Community development	686,643	686,643	573,831	112,812
Total expenditures	878,132	878,132	670,912	207,220
Excess (deficiency) of revenues over expenditures	2,129,914	2,129,914	2,389,823	259,909
Other financing sources (uses):				
Transfers in	-	-	927,881	927,881.00
Transfers out	(2,042,002)	(2,042,002)	(1,434,245)	607,757
Total other financing sources (uses)	(2,042,002)	(2,042,002)	(506,364)	1,535,638
Net change in fund balance	87,912	87,912	1,883,459	1,795,547
Fund balance, beginning of year	10,991,134	10,991,134	10,991,134	-
Fund balance, end of year	\$ 11,079,046	11,079,046	12,874,593	1,795,547

SUPPLEMENTARY SCHEDULES

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 11,232,183	11,232,183	11,184,289	(47,894)
Interest income	-	-	33,746	33,746
Total revenues	11,232,183	11,232,183	11,218,035	(14,148)
Expenditures:				
Current:				
Special services	10,000	10,000	10,089	(89)
Community development	7,470,315	7,470,315	7,395,921	74,394
Debt service:				
Principal payments	2,225,000	2,225,000	2,225,000	-
Interest and fiscal charges	1,832,122	1,832,122	1,796,282	35,840
Total expenditures	11,537,437	11,537,437	11,427,292	110,145
Excess (deficiency) of revenues over expenditures	(305,254)	(305,254)	(209,257)	95,997
Other financing sources (uses):				
Transfers in	826,093	826,093	826,093	-
Total other financing sources (uses)	826,093	826,093	826,093	-
Net change in fund balance	520,839	520,839	616,836	95,997
Fund balance, beginning of year	4,154,814	4,154,814	4,154,814	-
Fund balance, end of year	\$ 4,675,653	4,675,653	4,771,650	95,997

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ -	-	160,066	160,066
Interest income	-	-	102,104	102,104
Other income	154,996	154,996	368,251	213,255
Total revenues	154,996	154,996	630,421	475,425
Expenditures:				
Current:				
Personnel services	2,855,520	2,855,520	2,368,905	486,615
Special services	587,639	587,639	159,752	427,887
Community development	27,544	27,544	217,317	(189,773)
Capital outlay	3,742,423	3,742,423	2,034,918	1,707,505
Total expenditures	7,213,126	7,213,126	4,780,892	2,432,234
Excess (deficiency) of revenues over (under) expenditures	(7,058,130)	(7,058,130)	(4,150,471)	2,907,659
Other financing sources:				
Transfer to City of National City	(666,667)	(666,667)	(666,667)	-
Proceeds of advance from City	-	-	739,966	739,966
Total other financing sources	(666,667)	(666,667)	73,299	739,966
Net change in fund balance	(7,724,797)	(7,724,797)	(4,077,172)	3,647,625
Fund balance, beginning of year, as restated	17,048,769	17,048,769	17,048,769	-
Fund balance, end of year	\$ 9,323,972	9,323,972	12,971,597	3,647,625

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Board of Directors

Community Development Commission of the City of National City

National City, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Community Development Commission of the City of National City ("Commission"), a component unit of the City of National City as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider items that have been described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control.

The City's written responses to the matters communicated herein have not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We note certain matters we reported to the management of the City of National City in a separate letter dated December 23, 2010.

Board of Directors
Community Development Commission of the City of National City
National City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted other matters involving compliance with respect to the items tested, the Commission complied, in all material respects, with the provisions referred to in the preceding paragraph, except for three instances that are described as follows:

There is one parcel of land held for resale purchased with low and moderate income housing funds that was held beyond five years. Health & Safety Code §33334.16 requires Agencies to initiate activities to develop properties purchased with low and moderate income housing funds within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. The parcel was purchased in 2003 and had not been sold as of June 30, 2010. We were also not provided any evidence that a resolution was adopted extending the time period.

On or before December 31, 1994, and each five years thereafter, Health and Safety Code §33490 requires each agency that has adopted a redevelopment plan prior to December 31, 1993, to adopt, after a public hearing, an implementation plan that shall contain the specific goals and objectives of the agency for the project area, the specific programs, including potential projects, and estimated expenditures proposed to be made during the next five years, and an explanation of how the goals and objectives, programs, and expenditures will eliminate blight within the project area and implement the requirements of Section 33333.10, if applicable, and Sections 33334.2, 33334.4, 33334.6, and 33413. The Agency was not in compliance with this requirement.

Health & Safety Code §33080.1 requires Agencies to annually report on their Low and Moderate Income Housing Fund and housing activities. During our review of this annual report it was noted that certain amounts being reported for fiscal year ended June 30, 2009 materially did not agree to the Commissions' audited financial statements.

This report is intended solely for the information and use of management of the National City Community Development Commission, Board of Directors, and the State Controller and is not intended to and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 23, 2010

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

Year ended June 30, 2010

(2010-01) Reporting of Notes Receivable

During the audit, Finance Department staff identified 6 different loans, which in the aggregate totaled approximately \$9.5 million dollars, which were issued by the Community Development Commission (CDC) in previous years dating back to 1995 fiscal years. These agreements were entered into for appropriate Commission activities; however, these transactions were not reported in the accounting system as receivables of the CDC. These unreported transactions resulted in restatement of fund balance and net assets in the City and CDC's financial statements. The proper recording of receivables allow the City and CDC to monitor these funds and projects to insure that funds will be repaid in accordance with the terms of the agreement.

Recommendation

We recommend that Community Development Commission and City Finance Department staff develop policies and procedures for communicating, documenting, and recording of significant loan transactions to insure that activities of the Commission are properly reflected in the accounting records. These policies and procedures should also include enhanced monitoring controls over the loans issued to ensure repayment is appropriately recorded and that the monies are being used in accordance with the agreements terms and conditions.

Management's Responses Regarding Corrective Action Taken or Planned

We concur with the recommendation and Finance staff will develop policies and procedures on recording Notes Receivables. It should be noted that the six different loans totaling \$9.5 million were entered into as early as 1995 and pre-dates existing management.

(2010-02) Internal Service Fund Charges

During our audit, we noted that the method for determining and allocating internal service fund charges to other departments and funds of the City had not been appropriately updated. During the 2010 fiscal year, the revenues received by the City's internal service funds were unchanged from 2009. Proper charges from internal service plans should be determined during the budgeting process and should reflect the actual cost incurred to provide the services rendered by the internal service fund. This process should be updated, reviewed, and approved on an annual basis.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

(Continued)

(2010-02) Internal Service Fund Charges, (Continued)

Recommendation

We recommend that the City perform a reconciliation of estimated expenses versus actual expenses, and to make the appropriate journal entries so that internal services funds are fully reimbursed for actual costs incurred or to insure user departments are not over charged should actual expenses be less than budget.

Management's Responses Regarding Corrective Action Taken or Planned

We concur with the recommendation. Management is in the process of contracting services to perform a full review of the internal fund charge formula. With the merger of the Community Development Commission's operations with the City of National City as well as the other City organizational changes, the internal charge methodology requires a more detailed review to ensure all departments are being charged appropriately. Once the methodology has been approved, the finance staff will reconcile estimated expenses vs actual expenses and adjust the charges accordingly. The internal services charges will be updated on an annual basis.

(2010-03) Interfund Transactions

The proper use of short term interfund transactions (due to/from other funds) are used to eliminate deficits of cash in particular funds or to report short terms loans between funds that are due and payable within 12 months. Long-term loans between funds of the City are generally due within more than one year (advances to/from other funds), and they may accrue interest to the lending fund and should be approved by City Council.

During the June 30, 2010 audit, we noted that the interfund accounts are not being used by the City in the aforementioned situations. This has resulted in numerous funds of the City having both receivables and payables to other funds, and in many cases, the funds that are receiving these loans have adequate cash balances to support their operations.

Recommendation

We recommend the interfund accounts that are a result long term borrowing need to be formally approved by Council and document these interfund loans as long-term advances between the borrowing funds and funds from which an advance was made. We also recommend that the City implement and document monitoring controls to insure that interfund borrowing does not affect restricted funds and to implement procedures to insure that the interfund accounts are not used to record routine or monthly transactions.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

(Continued)

(2010-03) Interfund Transactions, (Continued)

Management's Responses Regarding Corrective Action Taken or Planned

We concur with the recommendation. The financial accounting system has been programmed to record entries as short term interfund transactions (due to/due from). The Finance Director will work closely with the city's accounting software programmers to correct the system generated entry and use the short term interfund transactions only as needed.

(2010-04) Adjustments Detected During the Audit Process

The Auditing Standards requires that the auditor include in the report of significant deficiencies any material adjustments detected by the audit process. For the year in June 30, 2010, material adjustments detected by the audit process were as follows.

- Accrual payroll adjusted by \$187,202 to reflect additional liabilities associated with payroll incurred as of June 30, 2010.
- Increased capital assets, cash with fiscal agent and recorded long-term capital lease in the amount of \$507,000, \$1,248,323, and \$1,755,160, respectively, relating to a transaction entered into by the City, but not recorded in the City's general ledger.
- Recorded interest receivable as of June 30, 2010 in certain restricted funds to properly reflect those funds income and pooled cash balances at year end.
- Reduced interfund loans reported in restricted funds due to the fact that the borrowing funds had adequate pooled cash balances and to reduce the interfund loans in restricted funds of the City.

Recommendation

Paragraph 15 of the Statement on Auditing Standards No. 115 specifies that material adjustments identified through the audit process are an indication of weaknesses in an entity's internal control structure. Efforts should be made to enhance the City's year end closing procedures to include areas that resulted in audit adjustments in 2010.

Management's Responses Regarding Corrective Action Taken or Planned

We concur with the recommendation. The finance staff will update the year end closing procedures to ensure that all material adjustments are detected and recorded.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

(Continued)

(2010-05) Consolidation of Funds in the Accounting System

Currently, the City has over one hundred funds in their accounting system. Although some funds are required to be reported separately, the majority of the City funds may be combined into the same fund if they are similar in nature (i.e. certain grants). Different revenue and expenditure accounts may be used to segregate those funds that are combined into one in order to continue to account for them separately.

Furthermore, during the fiscal year ended June 30, 2011, the City will have to implement Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which will further require the City to potentially consolidate certain funds for financial reporting purposes; having such a significant number of funds to analyze will require considerable efforts from City and Finance Department staff.

Recommendation

We recommend that the City evaluate each fund of the City and determine if there is an appropriate need to have a separate fund for the identified activities. Funds that are determined to not meet those criteria should be closed and reported with the General Fund. Through this process, the City should consider the impacts of GASB 54 to ensure that the accounting records will be appropriate for these new reporting standards.

Management's Responses Regarding Corrective Action Taken or Planned

We concur with the recommendation. Finance staff have begun review of the funds in the accounting system and will recommend consolidation of funds to the City Manager. In addition, the city will consider contracting services for the implementation of GASB 54 to ensure compliance with the new reporting standard.